AFT Pharmaceuticals

US milestone triggers upside and guidance bump

Guidance update

Pharma and biotech

AFT Pharmaceuticals has announced the first sale of its intravenous pain relief medicine, Maxigesic IV, through its US licensing partner, Hikma Pharmaceuticals, a material milestone for AFT's portfolio expansion and geographic diversification. The NZ$6m milestone payment triggered a bump in FY24 operating profit guidance to NZ$23–25m (from NZ$22–24m previously). The upside was partially offset by slower than anticipated sales traction in Australasia. We adjust our FY24 and FY25 estimates to reflect the update and revised guidance, including the earlier than anticipated milestone payment (pulled forward to FY24 from FY25) and increased anticipated expenses (SG&A and R&D) to align with management's portfolio and geographic growth aspirations. Our valuation resets to NZ$698m or NZ$6.65/share (from NZ$723m or NZ$6.90/share).

Year end	Revenue (NZ$m)	PBT* (NZ$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
03/22	130.3	18.9	19.2	0.0	18.3	N/A
03/23	156.6	16.7	11.0	1.10	34.2	0.3
03/24e	187.5	22.3	15.5	1.55	23.5	0.5
03/25e	223.5	26.3	18.2	1.82	19.8	0.5

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Guidance updated in the run-up to full-year results…

The earlier than anticipated milestone receipt and unexpectedly slower domestic market performance in H224 (given the strong H124 performance with 20% and 8% y-o-y growth in Australia and New Zealand, respectively) have led to AFT revising guidance. The slower than anticipated launch activity and sales uptake for new products will push timelines back slightly and we expect these launches and commensurate sales to now be realised in FY25. Margins are also likely to be affected by the required upfront investments in sales and marketing and R&D activities to expand into new products across new geographies, which should translate to stronger traction in the medium term.

…triggering an estimate revision

We have adjusted our FY24 top-line and operating profit estimates to reflect the revised operating profit guidance and now estimate an operating profit of NZ$23.9m in FY24 (NZ$22.7m previously). Adjustments to our FY25 estimates are more substantial, where we remove the milestone payment benefit (now reflected in FY24) and raise expected investments in sales and marketing and R&D, given sales spend will likely remain high with roll-over of launch activity and the active search for attractive pipeline candidates. Our revised operating profit estimate for FY25 is NZ$28.3m, versus NZ$40.3m previously. Our longer-term assumptions remain unchanged for now.

Valuation: Adjusts to NZ$698m or NZ$6.65/share

We continue to use a discounted cash flow (DCF) method to value AFT. Following the revisions to our forecasts, our valuation is now NZ$698m or NZ$6.65/share, from NZ$723m or NZ$6.90/share previously.

19 February 2024

Price	**NZ$3.49**
Market cap	**NZ$366m**
	NZ$0.61/US$
Net debt (NZ$m) at 30 September 2023	30.6
Shares in issue	104.9m
Free float	25.9%
Code	AFT
Primary exchange	NZX
Secondary exchange	ASX

Share price performance

%	1m	3m	12m
Abs	(5.31)	8.18	(1.92)
Rel (local)	(4.93)	(3.98)	(5.03)
52-week high/low		NZ$3.90	NZ$3.26

Business description

AFT Pharmaceuticals is a specialty pharmaceutical company that operates primarily in Australasia but has product distribution agreements across the globe. The company's product portfolio includes prescription and over-the-counter drugs to treat a range of conditions and a proprietary nebuliser.

Next events

FY24 results	May 2024
US Maxigesic Rapid launch	FY25

Analysts

Soo Romanoff +44 (0)20 3077 5700

Jyoti Prakash, CFA +44 (0)20 3077 5700

Jitisha Malhotra +44 (0)20 3077 5700

healthcare@edisongroup.com

Edison profile page

AFT Pharmaceuticals is a research client of Edison Investment Research Limited

Forecasts and financials

We adjust our FY24 and FY25 estimates (both revenue and expenses) based on AFT's upgraded operating profit guidance for FY24, slower sales traction in the domestic market and the potential upside from the recent launch of Maxigesic IV in the US market.

For FY24, we have lowered our sales estimates in Australia and New Zealand to NZ$105.4m and NZ$46.2m, respectively (from NZ$112.9m and NZ$47.5m previously), to reflect launch delays and slower-than-anticipated sales for newly launched products in these markets. While we expect some of the launch activity to roll over to FY25, we slightly temper our estimates and now project domestic sales of NZ$176.9m in FY25 across Australasia (from NZ$181.0m). Furthermore, we revise our FY24 and FY25 sales estimates for international market to NZ$24.5m and NZ$29.7m, respectively (from NZ$18.1m and NZ$36.2m previously), to account for the recognition of the US$6m milestone payment from Hikma (of which AFT's share is US$3.9m or c NZ$6m) in FY24, sooner than our previous estimate of FY25. Overall, we now estimate total sales growth of 19.7% and 19.2% y-o-y in FY24 and FY25, respectively.

With the earlier-than-expected recognition of the NZ$6m milestone payment (AFT's share) from Hikma, we revise our gross margin estimates for FY24 (46.0% vs 45.0% previously) and FY25 (47.0% vs 48.0% previously). This is because we now expect the full flow-through impact of the milestone payment to benefit the gross margin in FY24, as opposed to FY25. We note that the company plans to use this licence fee income to accelerate investments in new product launches in Australasia, Europe, the UK (Maxigesic/Combogesic tablets), the US (Maxigesic Rapid) and Canada alongside supporting other R&D projects. This includes the formation of AFT Pharmaceuticals USA and AFT Pharmaceuticals Canada along with continued investment into AFT Pharm Europe.

We raise our selling and distribution expense estimates for FY24 (to NZ$50.6m from NZ$49.3m previously) and FY25 (to NZ$53.6m from NZ$49.0m previously) to reflect the delayed product launches and incremental investments by the company. We also raise our R&D expense estimates for both FY24 and FY25 to reflect the company's increased R&D efforts (recent investments in strawberry birthmarks, burning mouth syndrome and vulvar lichen sclerosus), resulting in an increase in our opex estimates. Our FY24 operating profit estimate is now NZ$23.9m (management guidance: NZ$23–25m) and includes c NZ$6m in licence income from Hikma, as discussed earlier. For FY25, we estimate operating profit at NZ$28.3m, from NZ$40.3m previously.

With these changes, we estimate that the company will end FY24 with a net debt position of NZ$25.6m, which translates into a net debt/EBITDA ratio of 1.0x, in line with management's target.

Valuation

We value AFT using a DCF valuation methodology, projecting free cash flows over a 10-year explicit forecast period (FY24–33e) and thereafter ascribing a terminal growth value (assuming a conservative 2% ongoing top-line growth and an EBIT margin of 36%).

We have incorporated the above-mentioned estimate changes in our model, which results in our valuation for AFT changing to NZ$698m or NZ$6.65/share, from NZ$723m or NZ$6.90/share previously. We note that the company continues to expect to declare a dividend for FY24, which is reflected in our model (assuming a 10% payout ratio, in line with the 11% paid in FY23). We see this announcement of consecutive dividend payouts as a sign of strengthening business operations and improving cash flow expectations, a positive boost to investor sentiment in our opinion.

Exhibit 1: AFT DCF valuation

NZ$'000s	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e
Revenue	187,465	223,490	282,539	310,793	334,102	350,808	368,348	386,765	406,104	426,409
Growth (%)	*19.7%*	*19.2%*	*26.4%*	*10.0%*	*7.5%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*	*5.0%*
EBIT	23,907	28,314	51,083	66,550	74,059	95,922	109,053	127,443	135,534	144,424
Margin (%)	*12.8%*	*12.7%*	*18.1%*	*21.4%*	*22.2%*	*27.3%*	*29.6%*	*33.0%*	*33.4%*	*33.9%*
Tax	(6,027)	(7,138)	(13,513)	(17,844)	(19,946)	(26,068)	(29,745)	(34,894)	(37,159)	(39,649)
Rate (%)	*28.0%*	*28.0%*	*28.0%*	*28.0%*	*28.0%*	*28.0%*	*28.0%*	*28.0%*	*28.0%*	*28.0%*
D&A	1,696	1,696	1,696	1,696	1,696	1,696	1,696	1,696	1,696	1,696
Working capital	(1,965)	(5,169)	(4,797)	(5,584)	(5,724)	(5,867)	(5,867)	(5,867)	(5,867)	(5,867)
Capex	(9,725)	(9,761)	(11,107)	(10,995)	(10,638)	(10,053)	(9,500)	(8,978)	(8,484)	(8,017)
Free cash flow	7,886	7,942	23,363	33,823	39,447	55,630	65,637	79,401	85,720	92,588

	Value (NZ$m)	Value/share (NZ$)
DCF for forecast period (2024 to 2033)	252.7	2.41
Terminal value	475.7	4.54
Enterprise value	**728.3**	**6.95**
Net cash (debt) at end September 2023	(30.6)	(0.29)
Equity value	**697.7**	**6.65**

Source: Edison Investment Research

Exhibit 2: Financial summary

NZ$000	2022	2023	2024e	2025e
Year end 31 March	NZGAAP	NZGAAP	NZGAAP	NZGAAP
PROFIT & LOSS				
Revenue	130,314	156,641	187,465	223,490
Cost of Sales	(68,539)	(83,658)	(101,323)	(118,540)
Gross Profit	61,775	72,983	86,142	104,950
Operating Expenses	(40,567)	(51,590)	(65,353)	(74,940)
Other Operating Income	225	-	4,814	-
EBITDA	21,433	21,393	25,603	30,010
Depreciation	(784)	(808)	(914)	(914)
Operating profit (before amort. and excepts.)	20,649	20,585	24,689	29,096
Intangible Amortisation	(260)	(916)	(782)	(782)
Exceptionals	-	-	-	-
Other	-	-	-	-
Operating Profit	20,389	19,669	23,907	28,314
Net Interest	(1,704)	(3,870)	(2,384)	(2,822)
Profit Before Tax (norm)	18,945	16,715	22,305	26,274
Profit Before Tax (reported)	18,685	15,799	21,523	25,492
Tax	1,163	(5,145)	(6,027)	(7,138)
Profit After Tax (norm)	20,108	11,570	16,279	19,136
Profit After Tax (reported)	19,848	10,654	15,497	18,354
Average Number of Shares Outstanding (m)	104.7	104.8	104.9	104.9
EPS - normalised (c)	19.2	11.0	15.5	18.2
EPS - (reported) (NZ$)	0.19	0.10	0.15	0.18
Dividend per share (c)	0.00	1.10	1.55	1.82
Gross Margin (%)	47.4	46.6	46.0	47.0
EBITDA Margin (%)	16.4	13.7	13.7	13.4
Operating Margin (before GW and except.) (%)	15.8	13.1	13.2	13.0
BALANCE SHEET				
Fixed Assets	44,218	53,463	66,954	75,020
Intangible Assets	38,093	45,627	53,652	61,677
Tangible Assets	3,360	3,365	3,370	3,410
Investments	2,765	4,471	9,933	9,933
Current Assets	77,542	93,142	103,350	120,294
Stocks	33,500	42,397	48,757	53,632
Debtors	36,002	46,718	46,217	54,794
Cash	7,940	3,291	7,640	11,132
Other	100	736	736	736
Current Liabilities	(29,050)	(38,317)	(47,673)	(55,956)
Creditors	(23,845)	(36,376)	(40,270)	(48,553)
Short term borrowings	(4,000)	(1,000)	(1,000)	(1,000)
Other	(1,205)	(941)	(6,403)	(6,403)
Long Term Liabilities	(35,966)	(35,020)	(35,020)	(35,020)
Long term borrowings	(33,200)	(32,200)	(32,200)	(32,200)
Other long term liabilities	(2,766)	(2,820)	(2,820)	(2,820)
Net Assets	56,744	73,268	87,611	104,338
CASH FLOW				
Operating Cash Flow	19,848	10,654	15,497	18,354
Movements in working capital	(7,472)	(6,947)	(1,965)	(5,169)
Depreciation and amortisation	1,044	1,724	1,696	1,696
Net Interest	2,084	2,625	2,886	2,822
Taxes	(1,175)	3,742	-	-
Other adjustments	(177)	(169)	-	-
Cash flow from operating activities	14,152	11,629	18,114	17,703
Capex	(329)	(197)	(187)	(223)
Acquisitions/disposals	(5,256)	(8,980)	(9,538)	(9,538)
Cash flow from investing activities	(5,585)	(9,177)	(9,725)	(9,761)
Financing	295	475	-	-
Dividends	-	-	(1,154)	(1,628)
Net Borrowings	500	(4,593)	-	-
Other adjustments	(4,709)	(2,860)	(2,886)	(2,822)
Cash flow from financing activities	(3,914)	(6,978)	(4,039)	(4,450)
Cash and cash equivalents at the beginning of the period	3,209	7,940	3,291	7,640
Increase/(decrease) in cash and equivalents	4,653	(4,526)	4,349	3,492
Effect of FX on cash and equivalents	78	(123)	-	-
Cash and equivalents at end of period	7,940	3,291	7,640	11,132
Closing net debt/(cash)	29,260	29,909	25,560	22,068

Source: Company reports, Edison Investment Research

General disclaimer and copyright

This report has been commissioned by AFT Pharmaceuticals and prepared and issued by Edison, in consideration of a fee payable by AFT Pharmaceuticals. Edison Investment Research standard fees are £60,000 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

London | New York | Frankfurt
20 Red Lion Street
London, WC1R 4PS
United Kingdom